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March 27, 1997
Audit Case Number
97-NY-202-1003

TO: Harry A. Reese, Director, Office of Public Housing,  
Buffalo Area Office

FROM: A. Paul Kane, District Inspector General for Audit,  
New York/New Jersey

SUBJECT: Binghamton Housing Authority  
Low-Rent Housing Program  
Binghamton, New York

We completed an audit of the Binghamton Housing Authority, referred to herein as the Public Housing Authority (PHA) pertaining to its Federal Low-Rent Housing (LRH) program. The purpose of the audit was to determine the adequacy of internal controls over the safeguarding of cash and other assets, and to determine whether the PHA has complied with the terms and conditions of the Annual Contributions Contract (ACC) and other applicable U.S. Department of Housing and Urban Development (HUD) regulations and requirements. The audit covered the period July 1, 1994 to June 30, 1996 and was extended where appropriate to include other periods. We performed the audit field work from July 25, 1996 to December 20, 1996.

The audit showed that the PHA generally has complied with program requirements and regulations pertaining to its LRH program, and that decent, safe and sanitary housing has been provided to tenants. However, the audit also showed that the PHA needs to improve operating controls to ensure that assets are properly safeguarded against waste and loss, and to increase assurance that its programs are operated in a way that achieves full compliance with the terms and conditions of the ACC and other applicable HUD regulations and requirements.

The report contains four findings. The findings show that the PHA's administrative policies, procedures and practices do not always comply with applicable HUD regulations and requirements. To ensure compliance, the PHA must: improve its monitoring of Subgrantees for the Drug Elimination Program; ensure that fringe benefit and travel costs are economical and in accordance with established policy; improve its administrative and accounting controls; and, ensure that costs are eligible and properly supported. These weaknesses caused ineligible costs of \$8,316.26 and unsupported costs of \$157,780.70 to be incurred (see Appendix A).

Within 60 days, please furnish this office, for each recommendation cited in this report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is not considered necessary. Also, please furnish us copies of any correspondence or directives issued related to the audit.

Should you or your staff have any questions, please contact Alexander C. Malloy, Assistant District Inspector General for Audit, at 212-264-8000, extension 3976.

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# Executive Summary

We performed an audit of the Binghamton Housing Authority, herein referred to as the Public Housing Authority (PHA), pertaining to its Federal Low-Rent Housing (LRH) program. The primary objective of the audit was to evaluate internal controls for safeguarding cash and other assets, and to determine whether the PHA complied with the terms and conditions of the Annual Contributions Contract (ACC) and other applicable HUD regulations and requirements.

The audit disclosed that the PHA generally complied with program requirements and regulations pertaining to its LRH program, and that decent, safe and sanitary housing has been provided to tenants. However, the audit disclosed that the PHA did not always comply with HUD regulations and requirements pertaining to its LRH program. The PHA needs to improve its monitoring of the Drug Elimination Program (DEP), and tighten its controls over fringe benefit and travel costs. Also, stronger administrative and accounting controls are needed to safeguard assets against waste and loss. The noncompliances were caused by inadequate controls, which led to the ineligible and unsupported use of funds as discussed in the findings.

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## Deficiencies found

The results of our audit are discussed in the findings of this report and are summarized below.

1. The PHA has not adequately monitored Subgrantees under the Drug Elimination Program.

The PHA was awarded Drug Elimination Program (DEP) grants of \$250,000 for both 1993 and 1995. Several Subgrantees were awarded funding and incurred costs under the program. However, our review disclosed various deficiencies pertaining to the Subgrantees that indicate a lack of monitoring by the PHA. The deficiencies involve contracts that were not executed with Subgrantees and ineligible and unsupported costs that were incurred where contracts had been executed. The deficiencies occurred because procedures were not established to ensure adequate monitoring of Subgrantees. Consequently, assurance that program funds were properly safeguarded against waste and loss and that program objectives were met was not adequate. As a result, ineligible and unsupported costs of \$1,967.97 and \$101,826.34 respectively, were charged to the program.

2. Controls are needed over the incurrence of fringe benefit costs

During the audit period, the PHA incurred some fringe benefit costs that were unnecessary and others that may not be necessary or reasonable. The costs were incurred because controls have not been established to ensure that fringe benefit costs are necessary and reasonable prior to incurrence. As a result, the PHA paid ineligible and unsupported costs totaling \$4,401.26 and \$55,433.11 respectively.

3. Travel costs violate prescribed requirements

The PHA has not instituted adequate controls over the administration of out-of-town travel to ensure compliance with applicable requirements. During the audit period, travel costs were incurred and paid by the PHA that violated provisions of its own policy and/or conditions of the ACC. As a result, the PHA incurred ineligible and unsupported travel costs totaling \$1,947.03 and \$521.25 respectively.

4. Administrative and accounting controls are inadequate

Our review disclosed various deficiencies and noncompliances relating to administrative and accounting controls and procedures. Consequently, the PHA's system of internal control has been weakened. The deficiencies and noncompliances occurred because procedures were not established and/or implemented to ensure that adequate controls were executed to meet program objectives and requirements. As a result, PHA assurance that its housing programs are administered in accordance with Federal regulations and that funds are properly safeguarded against waste and loss, was not adequate.

Recommendation

As part of each finding, we have recommended certain actions which we believe will correct the problems discussed in the findings and strengthen the PHA's administration of its housing programs.

Exit conference

The results of the audit were discussed with PHA officials during the course of the audit, and at an exit conference held on February 21, 1997, attended by:

PHA

David K. Tanenhaus, Executive Director  
Lou Ann Woodard, Assistant to the Executive Director  
Betty Bills, Bookkeeper  
Lee Reno, Attorney  
Jack Blosky, Public Accountant

Office of Inspector General

Alexander C. Malloy, Assistant District Inspector General  
for Audit  
Thomas F. Cosgrove, Senior Auditor  
Richard B. Roseboom, Auditor

The PHA's written comments to the findings are included as Appendix C to this report. The PHA agreed with certain issues discussed in the findings and disagreed with others. The PHA's position on each finding is provided under PHA Comments within each finding.

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## Acronyms

ACC	Annual Contributions Contract
CFR	Code of Federal Regulations
DEP	Drug Elimination Program
HUD	U.S. Department of Housing and Urban Development
IRS	Internal Revenue Service
LRH	Low-Rent Housing
OMB	Office of Management and Budget
PHA	Public Housing Authority



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# Introduction

The PHA is governed by a seven member Board of Directors. The Board establishes policy and takes official action as required by Federal and State law. Five of the Board members are appointed by the Mayor to staggered terms of five years each. The remaining two members are elected every two years by the tenants. The Executive Director, who is responsible for managing the overall day-to-day operations of the PHA, is David K. Tanenhaus. The books and records are located in the PHA's administrative offices, located at 35 Exchange Street, Binghamton, New York 13902.

The Fiscal Year extends from July 1 to June 30. The PHA operates three developments containing 641 units. The developments consist of 417 family units and 224 senior units.

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## Audit Objective, Scope and Methodology

The primary objective of the audit was to evaluate internal controls for safeguarding cash and other assets, and to determine whether the PHA complied with the terms and conditions of the ACC and other applicable regulations and requirements. Particularly, we evaluated and tested controls and procedures over monitoring of Subgrantees in administering the Drug Elimination Program; evaluated the PHA's personnel, travel, accounting and administrative procedures and practices; and, determined whether costs charged to the PHA's housing and grant programs were eligible and reasonable.

The audit covered the period from July 1, 1994 to June 30, 1996. However, activity prior and subsequent to this period was reviewed as necessary. The audit field work was conducted between July 25, 1996 and December 20, 1996.

Audit procedures included examination of files and records and interviews with PHA and Subgrantee staff. PHA policies, procedures and practices for managing its operations were also reviewed. Specific audit testing was based primarily on judgmentally or randomly selected samples representative of the transactions in the areas reviewed.

The audit was conducted in accordance with generally accepted government auditing standards.

A copy of this audit report has been provided to the PHA.

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# Improvements Are Needed in the Monitoring of Subgrantees for the Drug Elimination Program

The PHA was awarded Drug Elimination Program (DEP) grants of \$250,000 for both 1993 and 1995. Several Subgrantees were awarded funding and incurred costs under the program. However, our review showed various deficiencies pertaining to the Subgrantees that indicate a lack of monitoring by the PHA. The deficiencies occurred because procedures were not established to ensure adequate monitoring of Subgrantees. Consequently, assurances that program funds were properly safeguarded against waste and loss and that program objectives were met are not adequate. As a result, ineligible and unsupported costs of \$1,967.97 and \$101,826.34 respectively, were charged to the program.

## Review was expanded

Initially, we planned to limit our review to a sample of transactions to determine the propriety and eligibility of costs incurred under the 1995 DEP grant. However, we found that three of the six Subgrantees were funded without the benefit of a contract. Therefore, we extended our review to include the PHA's process of awarding subgrants under the 1993 grant.

## Costs Incurred by Subgrantees Not Under Contract With the PHA

## Contracts not executed with Subgrantees

Three Subgrantees were awarded funding by the PHA from the 1995 grant without the benefit of a written contract or agreement. Moreover, contracts were not executed for all five Subgrantees awarded funding under the 1993 grant. The costs incurred by these eight Subgrantees amounted to \$345,808.02. In addition, PHA officials advised that site visits were not made to Subgrantees to verify claims and disbursement records.

24 CFR Part 85.40 of the Federal regulations provides that, Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements. Furthermore, Office of Management and Budget (OMB)

Circular A-87 provides that, to be allowable under a grant program, costs must be necessary and reasonable for proper and efficient administration of the program.

Failure to execute written contracts with Subgrantees limits the PHA's legal recourse in the event of default or non-performance. In addition, since the Subgrantee is not bound to a specific scope of services to be provided, the PHA is precluded from making eligibility determinations on the costs incurred. Also, failure to monitor Subgrantee performance precludes any assurance that the program regulations and requirements have been followed.

Apart from the above, we found that one of the Subgrantees incurred some costs that are specifically not allowable. It should be noted that Federal Register Volume 60, Number 3, dated January 5, 1995, Public and Indian Housing Drug Elimination Program; Funding Availability for Fiscal Year 1995, specifically prohibits alcohol related activities for funding under the program.

We conducted a site visit and cursory file review at one Subgrantee to determine the actual services provided. The review and interviews with Subgrantee officials revealed that some of the services provided were for alcohol related activities. However, since the PHA files were not adequately detailed, we were unable to determine the exact amount of costs incurred for the alcohol related activities that would constitute ineligible program charges. Accordingly, the entire costs incurred under the 1995 subgrant amounting to \$48,182.25 are considered to be unsupported.

#### Costs Incurred by Subgrantees Under Contract With the PHA

##### Subgrantees Under Contract

Three Subgrantees were awarded 1995 grants by the PHA where a contract, that included a scope of services, was executed. All transactions over \$250 were reviewed to determine the propriety and eligibility of the costs. The review showed some instances where indirect costs had been charged and others where the documentation was inadequate to support the charges. The results are as follows:

Check No.	Program Charges	Ineligible Amount	Unsupported Amount	Notes
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Subgrantee A				
14615	\$ 732.97		\$ 732.97	1
14301	870.03		870.03	1
13988	1,102.02		1,102.02	1
13817	965.39		965.39	1
13550	1,021.33		1,021.33	1
13296	703.00		703.00	1
13022	833.75		833.75	1
12948	1,974.51		1,974.51	1
Subgrantee B				
14417	2,674.10	\$ 348.80	2,325.30	1,2
14037	3,034.15	395.76	2,638.39	1,2
13792	2,635.66	343.78	2,291.88	1,2
13589	1,743.28	227.38	1,515.90	1,2
13527	298.82	298.82		2
13338	1,992.10		1,992.10	1
13060	2,709.63	353.43	2,356.20	1,2
Subgrantee C				
14537	6,140.50		6,140.50	1
14345	9,996.09		9,996.09	1
14033	4,725.49		4,725.49	1
13788	5,665.00		5,665.00	1
13452	3,045.12		3,045.12	1
13156	2,749.12		2,749.12	1
TOTALS	\$55,612.06	\$1,967.97	\$53,644.09	1

Notes:

1. Documentation is not adequate to meet the source documentation requirements of 24 CFR Part 85.20 and/or does not provide evidence of payment by the Subgrantee. Examples of documentation that was missing or lacked sufficient detail to allow an eligibility determination include:
  - Purchase orders
  - Canceled vendor invoices
  - Canceled checks
  - Payroll journals, time cards, time sheets
  - Fringe benefits claimed in total that lack a description of benefit type and/or methodology used to determine amount claimed.
2. Federal Register Volume 60, Number 3, dated January 5, 1995, Public and Indian Housing Drug Elimination Program; Funding Availability for Fiscal Year 1995, provides that indirect costs are not permitted in the program.

We believe that unless the PHA establishes procedures to provide effective monitoring of Subgrantee performance, deficiencies similar to those cited herein will continue in the administration of the most recent 1996 DEP grant of \$250,000 awarded on November 13, 1996.

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## PHA Comments

The PHA agreed that they did not have written contracts for three 1995 PHDEP Subgrantees. The PHA now requires written contracts and effective procedures are in place for monitoring Subgrantee activities.

The PHA generally disagreed with the remainder of the finding and advised that it is not aware of any alcohol related activities for its ACBC program and is not aware of the basis for the finding which states that DEP funds have been expended on alcohol related activities. The PHA disagrees that the indirect costs of \$1,967.97 are ineligible since they are direct costs as defined by OMB Circular A-87. The PHA also disagrees with the unsupported costs cited in the finding stating that all costs are supported and are available for review.

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**OIG Evaluation of  
PHA Comments**

The site visit at the ACBC program disclosed that the majority of DEP funding is used for employee salaries. Since the employees provide counseling for both drug and alcohol related problems and since we were unable to determine the amount associated with alcohol, the entire amount of costs incurred under the 1995 grant, or \$48,182.25, is considered to be unsupported.

We disagree that the \$1,967.97 are eligible costs since the Subgrantee identified the costs as indirect costs and the criteria cited in the finding specifically prohibits indirect costs from being charged to the program.

We disagree that all DEP costs were supported and available for review. The reasons for the unsupported amounts are cited throughout the finding.

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**Recommendations**

We recommend that you require the PHA to:

- 1A. Establish procedures and controls that will provide for effective monitoring of Subgrantee performance.
- 1B. Reimburse the ineligible costs of \$1,967.97 from non-Federal funds.
- 1C. Provide additional documentation for the unsupported costs of \$101,826.34 so that an eligibility determination can be performed.
- 1D. Reimburse from non-Federal funds the amount of any unsupported costs that are determined to be ineligible.

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## Controls Are Needed Over the Incurrence of Fringe Benefit Costs

During the audit period, the PHA incurred fringe benefit costs that were unnecessary and others that may not be necessary or reasonable. The costs were incurred because controls have not been established to ensure that fringe benefit costs are necessary and reasonable prior to incurrence. As a result, the PHA incurred ineligible and unsupported costs totaling \$4,401.26 and \$55,433.11 respectively.

Fringe benefit costs were reviewed

As part of our audit, we reviewed costs that were incurred for fringe benefits. Specifically, we examined payments that were made for workers' compensation insurance and for medical insurance. The review showed that the lack of control over fringe benefit charges has resulted in the incurrence of ineligible and unsupported costs.

The deficiencies pertaining to payments for workers' compensation insurance and for medical insurance are described below.

### Workers' Compensation Insurance Costs

Ineligible workers' compensation costs

Attachment B of OMB Circular A-87, Cost Principles for State and Local Governments, specifically prohibits the payment of penalties for inclusion in federally funded programs.

In May, 1995 the PHA notified the carrier for its workers' compensation insurance that it wished to cancel the policy that was in effect for the period from April 1, 1995 to April 1, 1996. Prior to the cancellation, the PHA selected and paid another carrier to provide coverage for the same period. The original carrier advised that the PHA had violated one of the policy provisions by not providing a 30 day notice prior to cancellation. The violation resulted in a penalty to the PHA amounting to \$4,401.26, which is considered ineligible.

Unsupported medical  
insurance costs

Medical Insurance Costs

During the audit period the PHA paid medical benefits for retirees and for certain temporary employees without any supporting justification for the costs.

Section 4 of the ACC provides that the PHA will operate its projects in a manner that promotes economy and efficiency. In addition, OMB Circular A-87 provides that, in order to be eligible costs must be necessary and reasonable.

Our review showed that the PHA paid a significant portion of the medical insurance costs for eight retired maintenance employees. The insurance premiums amounted to \$41,201.73 of which \$34,657.63, or 84 percent was paid by the PHA. The PHA was unable to provide justification or an explanation as to what portion of the premium was paid for each retiree. Since neither the PHA's Personnel Policy nor the Union Contract for maintenance employees addresses or authorizes the incurrence of medical insurance costs for the retirees, the costs incurred of \$34,657.63 are considered to be unsupported.

In addition, the PHA paid the entire medical insurance costs for three temporary workers. The temporary workers were provided by an employment agency. However, we noted that throughout the audit period, about 18 temporary workers had been employed. We asked PHA officials why medical insurance was provided to some temporary employees but not others. The explanation provided was that only three temporary employees requested the coverage. Since the PHA Personnel Policy does not provide for the payment of medical insurance for temporary employees and since the PHA was unable to provide us with a copy of an agreement with the employment agency, the cost to provide the insurance coverage to the three temporary employees amounting to \$20,775.48 is considered to be unsupported.

We believe that the PHA needs to amend its Personnel Policy to stipulate whether medical insurance will be provided to retirees and to temporary workers. Unless such amendment is made, costs and deficiencies similar to those cited above will recur.

## PHA Comments

The PHA generally agreed with the finding and agreed to take corrective action by addressing the audit recommendations.

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## Recommendations

We recommend that you require the PHA to:

- 2A. Amend its Personnel Policy to stipulate whether medical insurance will be provided to retirees and to temporary workers. The amendment should comply with all applicable Federal and local regulations and requirements.
- 2B. Reimburse, from non-Federal funds, the amount of the ineligible costs.
- 2C. Provide additional documentation and justification for the unsupported costs so that an eligibility determination can be made.
- 2D. Reimburse, from non-Federal funds, the amount of any unsupported costs determined to be ineligible.

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# Ineligible and Unsupported Travel Costs

The PHA has not instituted adequate controls over the administration of out-of-town travel to ensure compliance with applicable requirements. During the audit period, travel costs were incurred and paid by the PHA that violated provisions of its own policy and/or conditions of the ACC. As a result, the PHA has incurred ineligible and unsupported travel costs totaling \$1,947.03 and \$521.25 respectively.

## Criteria

Section 4 of the ACC provides that the PHA will operate its projects in a manner that promotes economy and efficiency of the projects, while Section 2 of the ACC defines operating expenditures as those necessary for the operation of the project.

## Twelve travel transactions were reviewed

Twelve out-of-town travel transactions were reviewed to determine the adequacy of the controls over travel costs. The review showed that deficiencies exist for all 12 transactions, including various control weaknesses that have resulted in the incurrence of ineligible and unsupported costs.

## Examples of ineligible and unsupported costs

The types of ineligible and unsupported travel costs include:

### Ineligible Travel Costs

Includes payment for costs that were overstated on the travel voucher; travel advances that were not deducted from amounts reimbursed; travel costs that were paid twice for the same trip; the cost to upgrade a coach airline ticket to first class, and payments for gas, oil, and auto repair costs when mileage was claimed. Travel costs that were incurred on behalf of another organization but had not been reimbursed were also noted.

### Unsupported Costs

Includes costs incurred to hand deliver a grant application to Washington, D.C., and payment of travel costs for an

Travel policy and control deficiencies

employee who had no duties or need that related to the purpose shown for the trip.

The ineligible and unsupported costs are further described in Appendix B of this report.

Other improprieties found in the PHA's travel policy and in the controls over the accounting for travel costs include:

- Travel vouchers are not always prepared by the traveler and the vouchers do not always contain all the costs associated with the trip.
- Travel vouchers are maintained apart from other disbursement vouchers and often lack documentation to account for travel costs paid directly by the PHA.
- Travel vouchers do not always contain documentation to support the amount claimed. For example, airline tickets and hotel bills are not always attached to the travel voucher.
- The travel policy needs to be amended. For example, the policy provides for:
  - Payment of either a per diem rate or reimbursement of actual costs. This potentially allows for a method that results in the highest cost to be used for each trip. To eliminate any potential abuses and to strengthen the controls over travel, the policy should provide for reimbursement of travel costs based on only one method.
  - Payment of first class rail transportation. The policy should provide for economy and efficiency of operations as required by the ACC.
  - A different per diem rate for commissioners and consultants (\$100/day) than for employees (\$90/day). The policy should adopt the same provisions applicable to all travelers.

We believe that unless the PHA amends its travel policy and adopts controls to provide for an economical and efficient use

of program funds, deficiencies similar to those cited above will recur.

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**PHA Comments**

The PHA generally agrees with the finding and agreed to take corrective action by addressing the audit recommendations.

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**Recommendations**

We recommend that you require the PHA to:

- 3A. Amend its travel policy and adopt controls to ensure that all travel costs are necessary and reasonable and in compliance with the ACC.
- 3B. Reimburse, from non-Federal funds, the amount of the ineligible costs.
- 3C. Provide additional documentation and justification for the unsupported costs so that an eligibility determination can be made.
- 3D. Reimburse, from non-Federal funds, the amount of any unsupported costs determined to be ineligible.

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## Need to Improve Administrative and Accounting Controls

Our review showed various deficiencies and noncompliances relating to administrative and accounting controls and procedures. Consequently, the PHA's system of internal control has been weakened. The deficiencies and noncompliances occurred because procedures were not established and/or implemented to ensure that adequate controls were executed to meet program objectives and requirements. Consequently, PHA assurance that its housing programs are administered in accordance with Federal regulations and that funds are properly safeguarded against waste and loss, is less than adequate.

The following items should not be considered all inclusive; rather, they represent only those noncompliances that were identified as a result of our review.

### Administrative and Accounting control deficiencies

- A. The PHA has not adequately controlled its applicant waiting list. Several instances were noted where, contrary to the Admissions and Continued Occupancy policy, the files did not indicate or show that second offers were made to applicants who refused a first offer prior to other applicants being placed in the available units.
- B. The reduced rents provided to tenant employees who are on call need to be updated. We found that three maintenance employees are being charged rents that are less than the amounts contained in the union agreement for tenant employees. Four other temporary management employees were charged rents ranging from \$43 to \$126 per month as of June 1, 1996. However, there are no PHA procedures that address reduced rents for temporary employees and the files do not document the basis or reasonableness of the rents charged.
- C. The Statement of Income and Expenses included in the PHA's financial statements for the Fiscal Year Ended

June 30, 1995 showed a gain of \$16,956 from the disposition of nonexpendable equipment. The offset to the adjusting entry to record the gain was an increase in the Land, Structures and Equipment account. However, the journal voucher explanation indicated the entry was made to adjust inventory to actual. The PHA was unable to provide, any documentation in support of the fee accountant's entry and officials indicated that they were unaware of any nonexpendable equipment disposals that would have resulted in the gain reported. In fact, the PHA accountant indicated that the fee accountant apparently credited the wrong account. We believe the entry was not only incorrect, but the recorded gain may merely represent the net amount of inventory purchases not properly recorded and unidentified equipment losses and disposals not recognized due to inadequate controls over inventory and cash disbursements.

- D. Rather than record a payable relating to a transaction, the PHA showed a check that was issued in July, 1996 as outstanding at June 30, 1996. Consequently, the general fund cash account showed a negative balance for the Fiscal Year Ended June 30, 1996. However, not only was the cash disbursement entry incorrect, but by failing to properly record the transaction as a payable, the financial statements understated both assets and liabilities by \$13,156. Section 15 (A) of the ACC requires the PHA to maintain complete and accurate books of account.
- E. PHA assets are not always tagged prior to being placed in service and asset disposals are not always properly authorized. We found two instances where computer equipment was purchased but did not contain inventory tags at the time of our inspection. Moreover, PHA officials informed us that some equipment recently purchased may not contain tags if tag numbers were not yet assigned to the assets. In addition, we found that several recent asset disposal forms were not signed by the Executive Director. To adequately safeguard its resources, the PHA should

tag assets at the time of receipt and require authorization prior to disposal.

F. Several deficiencies relating to cash disbursements were noted. They include:

1. Instances where cash disbursement files lacked adequate supporting documentation such as; time cards to support claims for wages; identification of the account number charged; and, adequate descriptions of goods or services provided.
2. Instances where the Request for Purchase Order control document was approved after the purchase order was issued, and, in some cases, after the vendor invoice date.
3. Weaknesses in controls over payments included instances where the amount paid differed from the amount indicated on the supporting documentation and unnecessary address correction charges for express mailings to the HUD field office.
4. Instances where costs incurred were ineligible, such as payments for sales taxes, fines and penalties. The PHA is exempt from state sales tax and OMB Circular A-87 specifically identifies payments for fines and penalties as unallowable costs. Title 24 CFR, Part 85.20, Standards for financial management systems, requires accounting records be supported by such supporting documentation as canceled checks, paid bills, payrolls, time and attendance records, etc. Part 85.20 also requires that effective controls and accountability must be maintained for all assets and that assets will be safeguarded and used solely for authorized purposes.

G. PHA officials informed us that IRS Forms 1099 were not prepared. During our review we noted that security services were provided by off-duty police

officers who were independent contractors to the PHA. However, we must remind the PHA that they are not exempt from IRS rules pertaining to the issuance of Forms 1099.

- H. A review of journal vouchers showed that they were not always signed by the Executive Director as required by the PHA.

The deficiencies cited above have reduced the reliability of the PHA's system of internal controls. An adequate system of internal control is necessary in order for the PHA to evaluate its overall housing program performance and to ensure that operations are managed in a manner that promotes economy and efficiency. Unless corrective actions are implemented, deficiencies similar to those cited above will recur.

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#### PHA Comments

The PHA generally agreed with the finding and agreed to take corrective action by addressing the audit recommendations.

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#### Recommendations

We recommend that you require the PHA to:

- 4A. Establish controls to ensure that applicant waiting lists are maintained in accordance with PHA policy.
- 4B. Implement procedures to ensure that reduced rents for tenant employees are equitable, and in accordance with union agreement provisions and that the procedures either provide for or eliminate reduced rents for temporary employees.
- 4C. Adopt controls to ensure that journal vouchers are adequately supported prior to entry in the general ledger.
- 4D. Implement procedures that will require the proper use of accounting procedures to ensure that the books of account are complete and accurate.

- 4E. Establish controls to ensure that fixed assets are tagged upon receipt and properly authorized prior to disposal.
- 4F. Implement procedures to ensure that costs are eligible and are adequately supported prior to payment.
- 4G. Institute procedures that require the preparation of Internal Revenue Service Forms 1099 where applicable.
- 4H. Establish controls that will ensure that journal vouchers are signed and authorized as required.

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# Internal Controls

In planning and performing our audit, we evaluated the internal controls of the PHA to determine our auditing procedures and not to provide assurance on internal controls. Internal controls are the process by which an entity obtains reasonable assurance as to achievement of definite objectives. Internal controls embody interrelated components, including integrity, competence, ethical values, and the control environment which includes information systems, control procedures, risk assessment, communication, monitoring, managing change, and establishing objectives.

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## Internal controls assessed

Our audit objectives related to the following internal controls that we assessed:

- Controls over the administration of its HUD programs.
- Controls over personnel procedures.
- Controls over disbursements and supporting documentation for costs.
- Controls over travel.
- Controls over accounting and record keeping.
- Controls over property and equipment.

A significant weakness exists if internal controls do not give reasonable assurance that: (a) resource use is consistent with laws, regulations, and policies; (b) resources are safeguarded against waste, loss and misuse; and (c) reliable data are obtained, maintained, and fairly disclosed in reports.

## Assessment results

Our review identified the following significant internal control weaknesses:

- Controls over the administration of its DEP program (Finding 1).
- Controls over personnel procedures (Findings 2,4).
- Controls over disbursements and supporting documentation for costs (Findings 1,2,3,4).
- Controls over travel (Finding 3).

- Controls over accounting and record keeping (Findings 1,3,4).
- Controls over property and equipment (Finding 4).



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# Follow Up On Prior Audits

A prior audit of the PHA was performed by an Independent Auditor for the twelve month period ended June 30, 1995. The report did not contain any findings.

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# Schedule of Ineligible and Unsupported Costs

Finding Number	Ineligible (1)	Unsupported (2)
1	\$1,967.97	\$101,826.34
2	4,401.26	55,433.11
3	1,947.03	521.25
Total	\$8,316.26	\$157,780.70

(1) Costs clearly not allowed by law, contract, HUD or local agency policies and regulations.

(2) Costs not clearly eligible or ineligible but warrant being contested (e.g. lack of satisfactory documentation to support the eligibility of the costs, etc.).

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# Schedule of Ineligible and Unsupported Travel Costs

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# PHA Comments







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